11 January 2009

Notes on the LaPorte Ratio Study Data for 2006 Pay 2007 Received on 1/9/2009

There are substantial discrepancies between the data reported in the assessment/sales ratio (ASR) study dated 1/02/09 (received by DLGF 1/03/09, hereafter the ASR 1/03 data) and the larger data set, encompassing all properties, sold or unsold, dated 1/5/09 (provided to us on 1/9/09, hereafter the workbook data). The discrepancies between the data sets preclude any reliable assessment ratio study as well as any reliable tests for sales chasing because (1) it is impossible to determine which of the conflicting figures should be taken as authoritative and (2) the number of sold parcels with discrepancies, over 300, is easily enough to influence dramatically the results of such studies and tests. Attachment 1 is a listing of the noted discrepancies in reported assessments for 2006 pay 2007 (land, improvement, and total), as well as discrepancies in reported neighborhoods and reported property class; also provided for the sake of convenience are details on the discrepancies, parcel identifiers, and township and district codes. The rightmost five columns indicate where the discrepancies lie, and the central columns report the data from the two sources. Discrepant reports for the first three records are highlighted.

Further analyses of assessment ratio data appear pointless given the circumstances. It also seems pointless at this stage to explore the anecdotal reports of significant discrepancies between the data reported to DLGF via the workbook and the ASR 1/03 data on the one hand, and the data reflected in the local database, which will ultimately determine tax liabilities, on the other hand.

As a preliminary step to the discovery of the above discrepancies, an analysis of neighborhoods was undertaken on the (now dubious) assumption that the workbook data were reliable. Initial results of those analyses are reported below.

Indiana law contemplates that for the 2006 pay 2007 assessments the 2005 pay 2006 assessments would be updated by means of assessment/sales- ratio-study analyses leading to the development of adjustment factors to be applied to land, improvement, or total assessments. Such factors may be applied on the basis of ratio-study stratifications by property type, township, and neighborhoods. If this process is followed, then, for any given neighborhood, assessments should change by substantially uniform factors for at least one of the following: land assessed value, improvement assessed value, or total value, given that parcels affected by new construction are excluded from the analysis. This expectation was tested by analyzing the percentages by which residential assessments changed from 2005 to 2006, as reported in the workbook data, after eliminating all parcels that were not residential and all parcels that were reported to have been affected by new construction according to the eight standard files required by DLGF provided on December 8, 2008.

Percentage changes in assessments of land, improvement, and total value were calculated for each relevant parcel, and the results were then analyzed by neighborhood. The coefficient of variation (the standard deviation of the percentage changes divided by the mean or average percentage change) was

calculated for each of the three percentage changes in assessment for each neighborhood, and the minimum of the three (land, improvement, and total) was noted. If assessments were factored as contemplated, the minimum COV for each neighborhood would be zero, apart from rounding effects. Attachment 2 provides the details of the actual results; the minimum COV is highlighted in the fourth column, and the report lines are sorted on that basis. As can be seen there, well over half of the residential neighborhoods (233 out of 413) had minimum COVs of ten or more. The situation is much more striking if account is taken of the prevalence of non-viable neighborhoods.

If neighborhoods are to be used to develop adjustment factors as described above, it is essential that there be enough valid sales for the factors to be reliably and validly developed. If valid sales occur for two to three percent of the properties per year, if two years of sales are used, and if at least five valid sales are required to develop a reliable adjustment factor, then a minimum neighborhood size for trending purposes would be on the order of 100 parcels. If the above analysis were limited to neighborhoods of at least 100 parcels, then only 2 out of the remaining 87 neighborhoods would have a minimum COV as low as ten percent. Clearly a lot of individual changes have been made to residential assessments that are not in the nature of applying uniform factors to strata of properties based on ratio studies conducted at the neighborhood level. This is especially troubling in view of the past evidence of sales chasing and the departure from the updating methodology contemplated by law.

Attachment 3 further illuminates the extent of the neighborhood problem in respect of assessment adjustments. The workbook data reveal that a total of 573 distinct neighborhoods were reported for parcels in the county, or 452 neighborhoods if only residential properties are considered. Of these, 345 have fewer than one hundred parcels, (60 and 76 percent of the neighborhoods respectively), clearly indicating that neighborhoods in LaPorte County have been configured in such a way that they will generally be unusable for the purposes of trending assessments as contemplated by Indiana law. In view of the difficulties the county has had in meeting state-mandated assessment performance targets without sales chasing, the abundance of small neighborhoods suggests that neighborhoods are being used as a substitute for missing data on other factors that determine the values of properties.

The most recent assessment/sales ratio study should be rejected for reasons of internally inconsistent data. The inability of the county to properly use neighborhoods, when viewed in connection with all the preceding evidence in this matter, suggests the need for a comprehensive reassessment involving the capture of accurate data on all characteristics that significantly affect property value and the re-delineation of neighborhood boundaries compatible with the usage of neighborhoods as contemplated by law.